STATE OF MAINE
PUBLIC UTILITIES COMMISSION

November 17, 2003

UNITEL, INC. Request for Universal Service Funding

Docket No. 2002-712

ORDER MODIFYING AMOUNT OF UNIVERSAL SERVICE FUNDING

UNITEL, INC. Implementation of 2002 Amendments to Chapter 204

Docket No. 2003-488

ORDER APPROVING BSCA CALCULATIONS SUBJECT TO TRACKING

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the proposal filed by UniTel, Inc. to decrease its funding from the Maine Universal Service Fund in conjunction with increases to its rates for local exchange service (approved previously in Docket No. 2002-496) and the implementation of changes to its basic service calling areas (BSCAs). These changes take effect on December 15, 2003. The increases to local rates increase Unitel's revenues; the implementation of the BSCA changes decreases its revenues; the net effect is an increase in revenues and a reduction in the need for USF.

II. BACKGROUND

On March 5, 2003, we approved universal service funding (USF) for UniTel. The order required the company to file a plan for increasing its local rates to the same level as those of Verizon, as required by the USF rule, Chapter 288, § 3(B)(3). We granted the Company an exemption pursuant to Chapter 288, § 3(C)(2), which allows a delay of up to three years from the date of initial USF, at least until the time when BSCA expansions were to occur. We suggested that increasing local rates all the way to Verizon levels at that time would be acceptable without further justification, but also recognized that the access parity statute, 35-A M.R.S.A. § 7101-B, might be amended to state a later deadline for access reductions and (implicitly) local rate increases. The statute was amended to allow LECs to delay reductions in intrastate access rates to interstate levels until May 31, 2005. The amended statute also allows (and, under some circumstances not present here, requires) LECs to phase in local rate increases and USF.

The March 5 order (which pre-dated the amendment to 35-A M.R.S.A. § 7101-B) required the Company to reduce its intrastate access rates to interstate levels by May 30, 2003, the deadline previously imposed by the statute. Notwithstanding the statutory change, Unitel complied with the order. Accordingly, USF in the amounts ordered in the March 5 order began shortly thereafter.

UniTel filed a proposal for the remaining stages[1] of its local rate plan on May 2, 2003. In an order issued on July 22, 2003, we approved UniTel's plan for two further step rate increases. The first step takes place on December 15, 2003, the date that UniTel (and all other ILECs) will expand their BSCAs to include all contiguous exchanges, as required by the November 2002 amendments to Chapter 204. The second step will take place on June 1, 2005 and will increase UniTel's rates the remainder of the way to Verizon rates in effect on that date. On December 15, 2003, Verizon's rates will change because of the need to offset BSCA implementation revenue losses and additional costs and because Verizon is eliminating its local service "rate group" structure.[2] As discussed in greater detail below, Verizon may also increase its local rates to offset access rate decreases. If we allow Verizon to increase its rates for this purpose, those increases would take place on May 31, 2004 and May 31, 2005.

Although UniTel's intrastate access rates are now at the interstate levels in effect for the Company as of January 1, 2003, it will experience access revenue losses as a result of the BSCA expansions that will become effective on December 15, 2003. Calls to the areas that are being added to the company's BSCAs that previously incurred long distance toll charges will become local, so that all the access revenue associated with those minutes is lost. This effect requires additional USF. Nevertheless, the local rate increases that also will become effective on December 15, 2003 will more than offset the projected net revenue losses due to BSCA expansions (and associated cost increases), thereby resulting in a net reduction of UniTel's need for USF. On an overall basis (access loss, local revenues, and USF), the revenues available to the company should be the same, i.e., the net effect of all changes will be revenue neutral. With BSCA changes, however, revenue neutrality is difficult to achieve using advance predictions, because of the difficulty of predicting "take" rates for Premium and Economy calling options and local per-minute rates. We discuss the BSCA implementation and rate effects in greater detail below.

Beyond the local rate increases pursuant to the plan to phase in Verizon-level rates, UniTel has not proposed any specific local rate increases to cover the access revenue losses and costs that will occur as a result of the BSCA expansions. This approach is appropriate. UniTel is required to increase its local rates to equal those of Verizon as a condition of receiving USF. We see no reason at this time to require UniTel to implement rates that are higher than Verizon's, although that result would be permitted under Chapter 288, § 3(C)(3). BSCA expansion diminishes UniTel's revenues; it is no less appropriate to cover these revenue losses through USF than it is to cover revenue losses caused by the need to lower access rates (which UniTel has already done).

III. DISCUSSION

In its October 30, 2003 filing, UniTel provided calculations of the BSCA revenue losses (which, as explained below, are known and certain amounts) and estimates (less certain) of

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[1] Effective on June 1, 2003, pursuant to the March 5 Order, UniTel increased its local rates one-third of the way from their then present levels to Verizon's rates.

[2] Under a "rate group" structure, the local rates for an exchange are based on the number of lines that may be called from an exchange on a toll free basis (i.e., the number of lines in the exchange's BSCA).

revenue gains from local rate changes. The BSCA-related revenue changes include access revenue losses that will occur because calls to the areas that are being added to the Company's BSCAs previously incurred long distance toll charges (and generated access revenues for the Company), but are now local calls.[3] They also include changes in local revenue due to changes in the mix of subscribership to the Premium and Economy options, as well as changes due to the change in the rate (from 20 cents per call to 5 cents a minute) for Economy customers who call outside the flat-rate calling areas of the Economy option but within the BSCA. As discussed in greater detail below, it is difficult to predict some of these elements.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. We interpret that provision to allow a company that is already receiving USF to seek additional support. (In this case, the need for additional support will be more than offset by the revenues from local rate increases). Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates (or a change in USF) that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A) or funded by USF), it must return the excess to customers (or the Universal Service Fund) and must propose future rates (or ongoing support) that will collect the correct amount to offset the ongoing revenue loss.

It is not necessary for the BSCA tracking account of a LEC that provides only access, and not retail toll, to track lost access and billing and collection (B&C) revenues. Once these amounts are calculated (based on an appropriate test period), they never change for BSCA tracking account purposes. The number of minutes and messages (and, therefore, access and B&C revenue) that UniTel will lose as a result of the BSCA expansions during the test period is known now.[4] We have therefore used that amount in this Order to alter the amount of universal service funding. In addition, one of the components of local service revenue will be permanently lost and its amount known in advance. That is the revenue from the rate of 20 cents per call for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option. (That rate is being replaced by a rate of 5 cents per minute.)

It is necessary, however, to track the amount of additional local revenue that will offset the known losses described above. The local replacement revenues include revenues

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[3] The Company has no retail toll revenue; it only provides access to interexchange carriers.

[4] For those LECs (Verizon, Saco River and Pine Tree) that offer retail toll service, it is far more difficult to calculate in advance the revenue effect of the loss of all toll traffic to the contiguous exchanges that are being added to BSCAs. The LECs that offer only access have only one set of rates, applicable to all traffic. It is easy to apply those rates to the lost traffic. By contrast, LECs that provide retail toll have a wide variety of rates, including some that are designed for short-haul (but not exclusively contiguous exchange) traffic and that have non-traffic-sensitive charges. It is not possible to determine the exact mix of those rates for the contiguous toll traffic that is lost, as compared to the mix of those rates for the toll traffic that remains.

available from the increases to local rates for both the Premium and Economy options and from a new rate of 5 cents per minute for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option (replacing the 20 cents per-call rate). These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Company will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former 20 cents per call rate and might even influence customer choice for the two calling options.

Chapter 204, § 5(C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or by ratepayers of the difference between the estimates embodied in rates (or USF) and actual costs, notwithstanding the fact the Section 5(A) allows a LEC to propose rates (or USF) in advance of implementation that will cover those costs. Unitel did not include any additional expenses in its BSCA calculation. The Company apparently assumes that there will be no incremental cost associated with BSCA or that it will be de minimus. Should any significant unanticipated implementation costs occur, Unitel should track them and be prepared to justify them and verify their amount if the Company wishes to seek their recovery. Tracking should be for a period that covers all expenses related to BSCA and any changes in investment attributable to the BSCA expansions, provided they are made no later than January 31, 2005. Results shall be presented in absolute and annualized forms no later than March 15, 2005.

Under UniTel's rate plan, the Company will increase its local rates again on June 1, 2005. USF funding will decrease at the same time. It may also be necessary to adjust USF following the BSCA tracking. We direct the Company to track the replacement revenues for 12 months and report the results to the Commission on or before March 15, 2005 so that, if necessary, they may be incorporated into the USF that will become effective for the third quarter of 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the October 30, 2003 filings. UniTel has proposed a 5-year amortization for expenses. We find that proposal is reasonable. If there is a need to change rates as a result of the tracking, we will determine the appropriate treatment of incremental investment at that time.

IV. RATE AND USF CHANGES FOR EFFECT ON DECEMBER 15, 2003

On December 15, 2003, UniTel will increase rates for local service in the amount of $288,164. At the same time, it will lose a net amount of $131,864 in revenues as a result of the implementation of BSCA changes. The BSCA amount is comprised of known amounts of access revenue loss and local ($0.20 per call) revenue loss and estimated amounts of offsetting revenue gains from rates for local service; the latter revenues will be subject to tracking as described above and in the ordering paragraphs. The net increase due to these revenue changes is $156,300. Universal service funding for UniTel will decrease by that amount.

The local rates for customers that will become effective on December 15, 2003 were previously approved in an Order issued on July 22, 2003 in docket No. 2002-712. They are as follows:

Basic Service Description			6/1/2003 Unitel	Proposed Increase	Proposed Rates	%
Albion 437						
			9.94	4.31	14.25	43%
Residential	Economy		13.86	2.14	16.00	15%
	Premium					
			18.52	13.48	32.00	73%
Business	Economy		24.56	7.44	32.00	30%
		ML	33.91	1.09	35.00	3%
	Premium		33.91	1.09	35.00	3%
		ML				
Newburgh 234						
			10.08	4.17	14.25	41%
Residential	Economy		14.57	1.43	16.00	10%
	Premium					
			18.62	13.38	32.00	72%
Business	Economy		24.67	7.33	32.00	30%
		ML	34.49	0.51	35.00	1%
	Premium		34.49	0.51	35.00	1%
		ML				
Thorndike 568						
			8.80	5.45	14.25	62%
Residential	Economy		10.30	5.70	16.00	55%
	Premium					
			17.42	14.58	32.00	84%
Business	Economy		17.42	14.58	32.00	84%
		ML	19.44	15.56	35.00	80%
	Premium		25.48	9.52	35.00	37%
		ML				
Unity 948						
			-	14.25	14.25	
Residential	Economy		10.30	5.70	16.00	55%
	Premium					
			-	32.00	32.00	
Business	Economy		-	32.00	32.00	
		ML	19.44	15.56	35.00	80%
	Premium		25.48	9.52	35.00	37%
		ML				

ML = MultiLine

V. RATE AND USF CHANGES FOR EFFECT ON MAY 31, 2005

Under UniTel's rate plan, the Company will implement a further increase to local rates on June 1, 2005 to bring its rates up to the Verizon rates that will be effective on that date. We note that in *Maine Public Utilities Commission, Investigation of Compliance of Verizon Maine with Amended 35-A M.R.S.A. § 7101-B*, Docket No. 2003-358, we recently decided that Verizon would phase in the access rate reductions required by amended Section 7101-B on May 31, 2004 and May 31, 2005.[5] We did not decide if Verizon would be allowed to offset those access rate decreases with increases to local rates.[6] That issue will be addressed in further proceedings. If we do permit local rate increases by Verizon that will become effective on May 31, 2004 and May 31, 2005, Chapter 288 requires the Company to increase its local rates to meet the Verizon level as of that date.

As discussed above, the Company also needs to track BSCA-related changes in local revenues and costs. Finally, the Company may experience other changes in sales that may need to be taken into account in any possible revisions following the BSCA tracking period. Therefore, the Company, on March 15, 2005, shall file billing units for all their services, including numbers of access lines and access minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Accordingly, we

1. APPROVE a reduction of $156,300 in the amount of universal service funding for UniTel, Inc. from the present level of $1,144,571, resulting in a revised funding amount of $988,270, effective from December 15, 2003 until May 31, 2005 unless modified by later order;

2. APPROVE the initial calculations by UniTel of expected revenue losses and gains and cost changes as a result of BSCA expansions, subject to the maintenance by UniTel, Inc. of tracking accounts and the reporting of the tracking results, as described herein;

3. ORDER UniTel, Inc. to file a proposal no later than March 15, 2003, to increase its rates to equal those of Verizon-Maine in light of changes that will occur to the local rates of Verizon-Maine from December 15, 2003 until May 31, 2005;

4. ORDER UniTel, Inc. to maintain a tracking account from February 1, 2004 until January 31, 2005 for net revenue changes resulting from additions to basic service calling areas (BSCAs) that will become effective on December 15, 2003, to report the results of that

[5] We decided this issue at our deliberations on October 9, 2003, but no Order has issued yet in that case.

[6] We will determine this issue in the future depending on whether the decreases meet the definition, under Verizon's AFOR, of an exogenous change.

tracking on or before March 15, 2005, and to reimburse the Maine Universal Service Fund for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order;

5. ORDER UniTel, Inc., if it has any intention to recover costs, to maintain a tracking account from the commencement of the incurrence of expenses until January 31, 2005 for changes in its revenue requirement (expenses and investment) resulting from the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005; and,

6. ORDER UniTel, on March 15, 2005, to file billing units for all their services, including numbers of access lines and access minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Dated at Augusta, Maine, this 17th day of November, 2003.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.